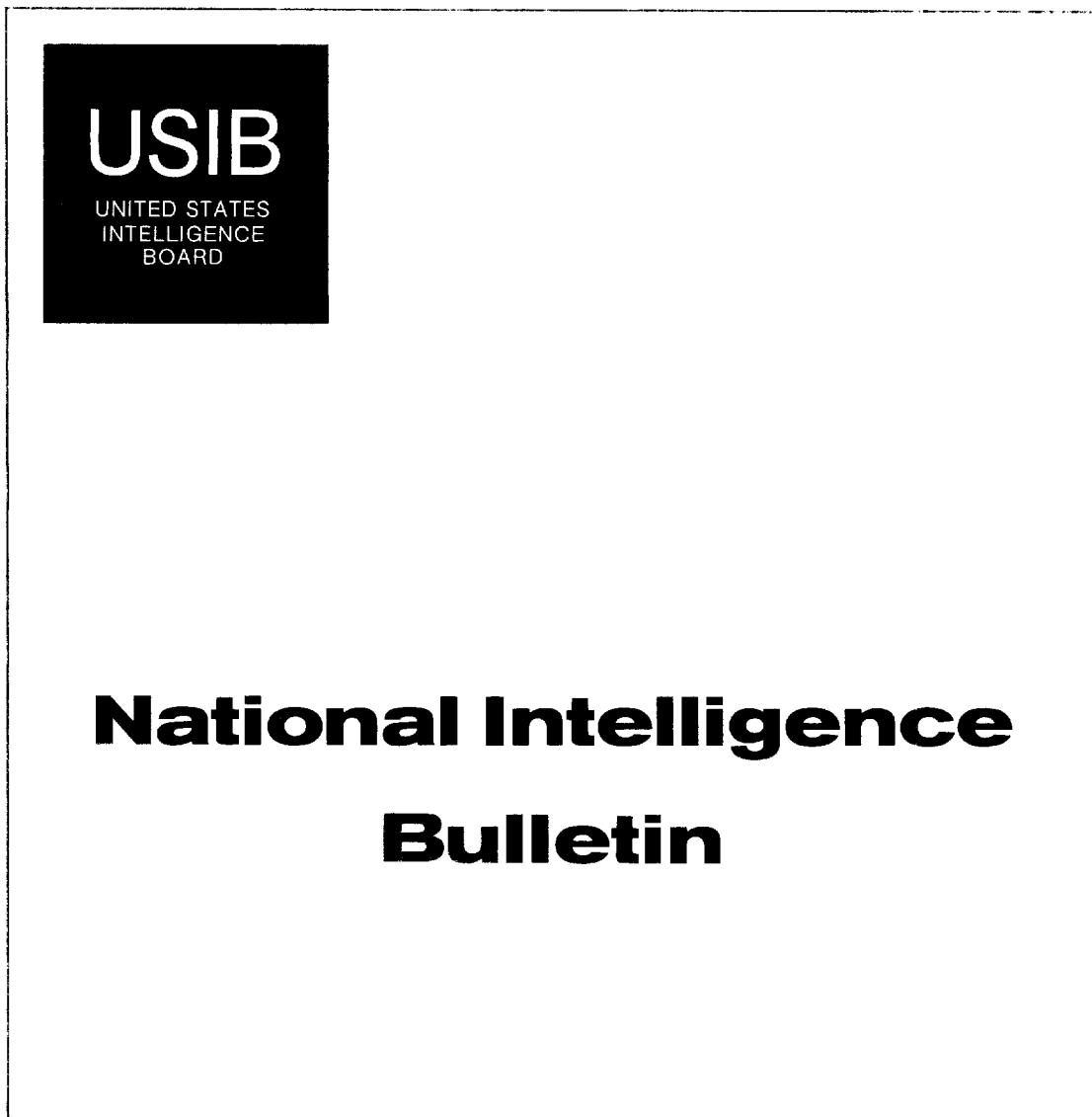


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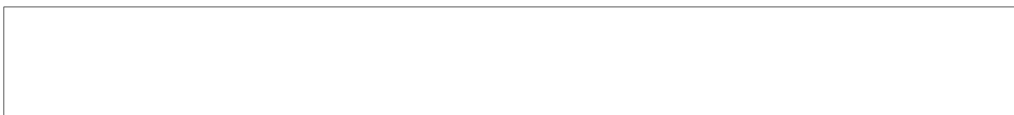
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EC

Chancellor Schmidt, dealing from his strong position as the leader of the EC's richest member, has torn up the compromise that the EC agricultural ministers thought they had achieved last week. Convocation of a new ministerial meeting is likely.

EC leaders had expected Bonn to approve the compromise automatically yesterday, because Schmidt had maintained close contact with his representative at the meeting of the farm council. The West Germans played a key role in hammering out a compromise at that meeting.

Bonn now insists that it must receive satisfactory new assurances from its eight partners that they will eliminate national measures which do not conform to the common agricultural policy. Some of these measures apparently violate EC rules and distort the competitive positions of EC members. The West Germans may now also insist that the EC begin immediately a fundamental review of the common agricultural policy. Schmidt predicts "great conflicts" within the EC on farm prices, and argues that West Germany's trading partners are exerting pressure on Bonn "to allow a little more inflation" in the Federal Republic.

Giscard is, nevertheless, dependent on the farm sector and like other EC leaders may have political difficulties over the abrupt German veto of the farm compromise. The situation is further complicated because of widespread uncertainty as to what specific proposals Schmidt has in mind. Some EC Commission officials fear that if a ministerial meeting is not called quickly, national support measures for farmers, rather than being

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rescinded, may in fact spread through the Community and further endanger not only the common agricultural policy but also the hoped-for momentum that Giscard's "dinner summit" of two weeks ago was intended to engender.

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AUSTRALIA - NEW ZEALAND

Canberra's 12-percent devaluation is aimed at holding down imports and avoiding further increases in unemployment. During the year ending last June, the country's balance of payments shifted from a massive surplus to a \$1-billion deficit, the first in seven years and largest in 22 years. The reversal was due in part to rapid import growth resulting from higher commodity prices, as well as a deliberate import liberalization policy.

Australia's strong labor unions have pointed to rapid import growth as a major cause of the rise in unemployment, which is now 40 percent above that of last year, although it is still less than 2 percent. Because of complaints from labor, Canberra is already considering quantitative restrictions on auto imports and increased controls on textile purchases. The government expects the latest currency change to help depress demand for other imported consumer goods.

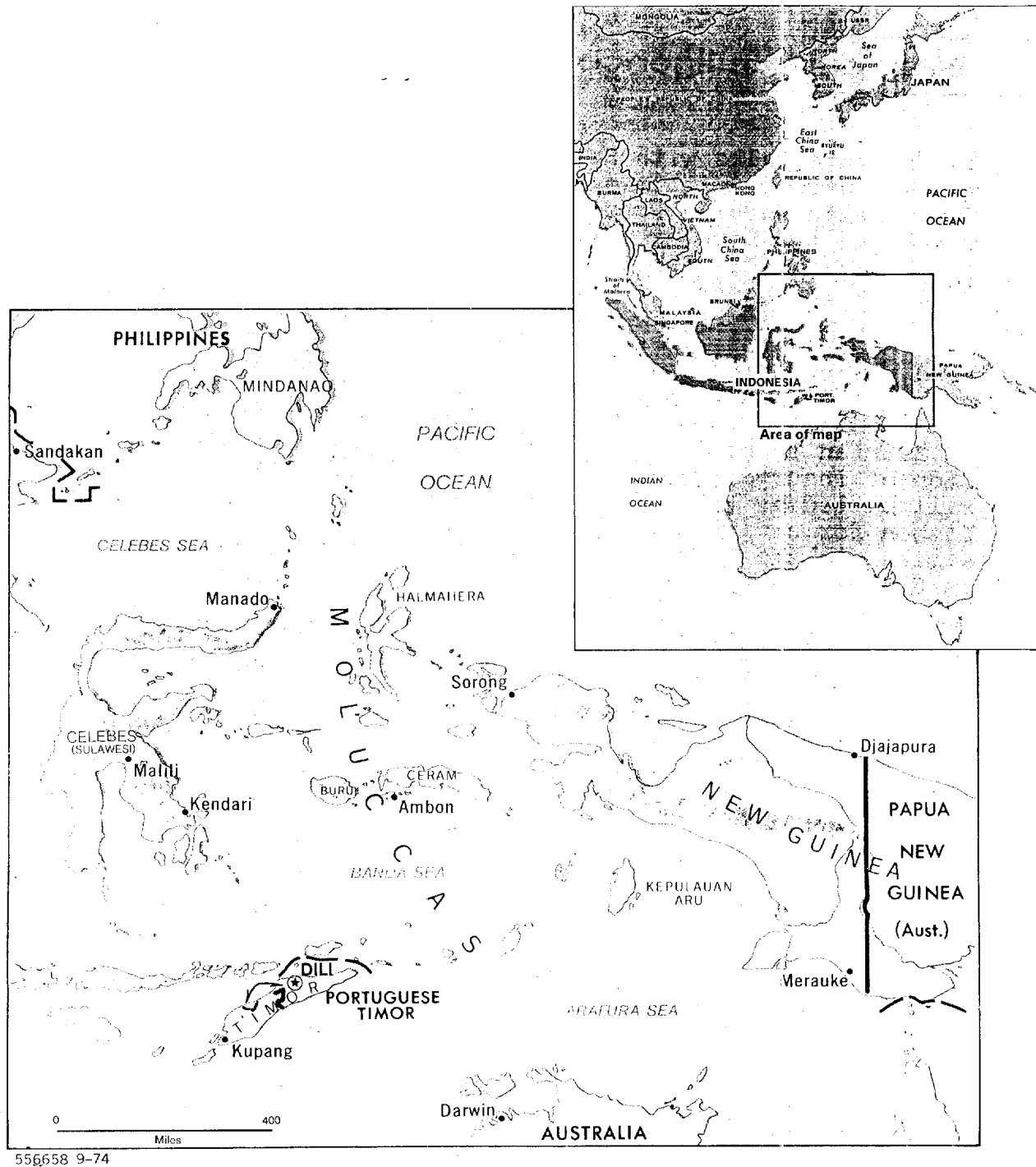
Although the overall balance-of-payments position has deteriorated, Australia's international financial position remains relatively strong. Foreign exchange reserves, for example, although 20 percent below last year's peak, still amount to some \$5.5 billion. The trade deficit is still fairly moderate, running about \$125 million a month since mid-year. In addition to fast growing imports, the deficit reflects falling world market prices for some key exports, especially beef and wool.

New Zealand, which devalued its currency 9 percent, has more pressing trade and payments problems. While its imports are rising rapidly, foreign demand for New Zealand wool, meat, and other primary products is extremely weak. As a result, official foreign exchange reserves at the end of August dropped to about \$675 million, only half the \$1.4-billion level of a year earlier.

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INDONESIA-PORTUGAL

The Indonesian government is trying to persuade Portugal that Portuguese Timor should be integrated into Indonesia. Lisbon has announced that a plebiscite will be held next year on the future status of the colony, but Indonesian officials hope to bring about a direct transfer of sovereignty.

Jakarta fears that a plebiscite probably would go against its wishes, resulting either in continued Portuguese rule or in independence for the colony. In addition to believing that Timor should logically be part of Indonesia, the Suharto government fears that a small independent state in the eastern part of the Indonesian archipelago could become an entry point for Chinese Communist subversion in Indonesia.

According to an Indonesian press report, Indonesia's foreign minister met with his Portuguese counterpart at the UN this week, and the two agreed to consult closely on the Timor issue. One of President Suharto's top aides reportedly plans to go to Lisbon next month to try to gain President Spínola's acquiescence to Jakarta's wishes.

Portuguese officials have paid little attention to Timor while they have been preoccupied with the status of their African colonies. Lisbon appears likely to insist, at least initially, that the plebiscite be held, but it is possible that the Portuguese might agree to a different approach under pressure from rival factions within Portugal or from the Indonesians. President Spínola strongly advocated self-determination for all Portuguese colonies until internal politics forced alternative solutions in Portuguese Guinea and Mozambique.

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EGYPT

Sayyid Mari, a political moderate and longtime adviser to President Sadat, may soon be named speaker of the People's Assembly or vice president. An appointment to either post could be an indication that he is being prepared to succeed Sadat eventually.

The deputy speaker of the assembly recently told a US embassy officer in Cairo that Mari may be named speaker at the next assembly session, which convenes in late October. Under the Egyptian constitution of 1971, if the post of president falls vacant, the speaker temporarily assumes the office until a new president is chosen.

[redacted] Sadat's term expires in 1976 and, although he is eligible for re-election, he has often spoken of stepping down.

[redacted]

Although Mari as vice president would have a good chance to succeed Sadat, the post of assembly speaker would give him a better position from which to work for the presidency. A presidential candidate is selected by a two-thirds majority of the assembly, and his name then submitted for approval in a popular referendum.

Mari was Sadat's first choice for prime minister during cabinet reorganization consultations early this year. Mari turned the offer down, however, reportedly to prevent charges of nepotism; his son is married to Sadat's daughter.

In other changes, First Deputy Prime Minister Hijazi was elevated yesterday to the post of prime minister. The move only formalizes a situation that has existed since Hijazi assumed the position of first deputy last April. Although Sadat had held the prime ministership along with the presidency since March 1973, Hijazi functioned as the prime minister. Sadat retains major decision-making authority as President.

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Sadat took over the prime ministership in preparation for the war in 1973. His relinquishment of the post can be read as a further affirmation of Egypt's intention to proceed with postwar reconstruction plans.

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LEBANON

Lebanon may be in the hands of a caretaker government for some time, following Prime Minister Sulh's submission of his resignation to President Franjiyah yesterday. After 14 months in office, Sulh stepped down when faced with the threatened withdrawal of several cabinet ministers critical of the government's inability to deal effectively with the country's persistent internal security and economic problems.

Franjiyah could ask Sulh to add some new faces and simply reorganize his cabinet, but the President appears more likely to designate another political leader to assemble a new group. Because Lebanon faces such pressing problems, Franjiyah is under pressure to make a choice quickly. Past experience suggests, however, that it may take several weeks to come up with a slate acceptable to the several powerful confessional and political blocs represented in parliament. Franjiyah, a Christian, will follow the Lebanese convention of appointing a Sunni Muslim as prime minister.

Any candidate acceptable to Franjiyah would hold to the same basically moderate policies espoused by Sulh. The President now may conclude, however, that Lebanon's problems demand that he appoint a leader more assertive and capable than the lackluster Sulh. A group of powerful members of parliament met on September 24 and agreed on a program calling for the appointment of a "strong" prime minister capable of instituting widespread political, economic, social, and administrative reforms, including a clear-cut defense policy.

Kamal Jumblatt, leader of Lebanon's Druze community and head of the Progressive Socialist Party, led the attack on Sulh's government. An armed clash between his followers and those of the Christian Phalanges Party on September 22 highlighted the government's inability to control the security situation and contributed to its downfall, but confessional strife was not the primary cause of Sulh's resignation. Leaders of the predominantly Christian and Muslim parties, like Jumblatt,

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had threatened to withdraw their representatives from the cabinet. No influential political figures came to Sulh's defense.

Palestinian leaders have played no direct role in the present government transition. Regular violations of security restrictions by fedayeen forces, however, have led to periodic Israeli violations of Lebanese territory, demonstrated Beirut's inability to protect residents of southern Lebanon from either the fedayeen or the Israelis, and stimulated criticism of the central government by residents of the south. [REDACTED]

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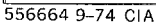
ETHIOPIA

The general strike called yesterday by Ethiopia's labor confederation fizzled. Most workers stayed on the job and services remained normal. High unemployment and military threats to have strikers fired apparently dissuaded workers from heeding their leaders' call for a work stoppage. The military is still holding the three labor leaders whose arrest precipitated the strike call.

For the time being, the military appears to have put down the civilian challenge. Workers, their student allies, and others, however, remain opposed to the continuation of military rule, and further opposition to the armed forces is likely. The recent creation by the military government of a civilian advisory body will probably be insufficient to stem the opposition.

The official government newspaper on September 24 published a scathing attack on Crown Prince Asfa Wossen, who recently indicated he is considering the military's invitation for him to return to Ethiopia as a figurehead monarch. The newspaper accused him of illegally acquiring large tracts of valuable land. Such attacks, appearing with the obvious approval of the military, suggest that the military does not favor Asfa Wossen's return to Ethiopia--even as a figurehead king--and may be considering the declaration of a republic. [REDACTED]

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CAMBODIA

The Khmer Communists are quickening the pace of combat activity in widely scattered areas, apparently in anticipation of the UN debate on Cambodian representation.

Insurgent forces retain the initiative on Route 4 in the southwest, but have been most active along Route 5 northwest of the provincial capital of Kompong Chhnang. More than 20 lightly defended outposts have fallen in quick succession, allowing the Communists to interdict Route 5 north of the city. While the insurgents presently pose no serious threat to Kompong Chhnang, their interdiction will complicate the movement of agricultural goods from the northwestern provinces to Phnom Penh. Local government troops have done little to discourage the insurgents and, despite the arrival of government reinforcements from Phnom Penh and Pursat, no major effort has been mounted yet to counter Communist action near Kompong Chhnang.

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Near other provincial centers, the Communists are stiffening their resistance to government expansion operations, and there has been a noticeable increase in shelling attacks. There has been no significant progress in the government's major operation in the Bassac River corridor just southeast of Phnom Penh, and insurgent gunners have fired several rockets at the capital from this area, inflicting light casualties.

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YUGOSLAVIA-USSR

Belgrade is steadily leaking details aimed at showing that pro-Soviet "cominformists" recently arrested in Yugoslavia had support from Moscow. The most recent allegation is that the chargé of the Soviet embassy was directly involved and was recalled before the Yugoslavs declared him persona non grata. The Yugoslavs have also repeated their charges that the head of the illegal Cominformist Party, formed at an underground congress last spring, is Mileta Perovic, a Yugoslav emigre resident in Kiev, and that propaganda materials seized by Yugoslav authorities came from Czechoslovakia, Hungary, and the USSR.

Despite the implications of these allegations, the Yugoslavs have sought to keep state-to-state relations on a relatively even keel. Two high-level delegations from the USSR, headed by Deputy Premier Novikov and General Staff Chief Kulikov met with their Yugoslav counterparts. They spent little time in the capital, however, and neither was received by Tito.

Belgrade also delayed announcement of the verdicts against 27 cominformists--ranging from one to 14 years "strict imprisonment"--until the Soviet officials had gone home. Tito, however, is on record with a promise to publicize fully the results of this and other trials. This grand exposé is presumably being held in reserve for the opening round of full-blown polemics, should it come to that.

The Yugoslavs may next take their case into the international Communist arena. Last week, Yugoslav party sources told Western newsmen that Belgrade might raise its grievances against the Soviet party this fall in Warsaw at a preparatory session for an all-European Communist party conference. Already a Yugoslav party delegation has been sent to Paris to discuss international topics with specialists on inter-party relations of the French Communist Party.

Stefan Andrei, the Romanian party's top expert on international relations, arrived in Belgrade this week. He talked with Tito and delivered a personal letter from Ceausescu.

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Whether by coincidence or not, the Yugoslavs on September 20 also dispatched a parliamentary delegation to China--the first in 17 years. Chinese officials, in an effort to exacerbate Moscow's problems with Belgrade, responded warmly to the Yugoslav delegation, even though there are no party ties between Peking and Belgrade. In a toast at a banquet, the vice president of the Chinese parliament went out of his way to laud Yugoslavia's opposition to foreign interference, subversion, and threats.

[REDACTED]

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BELGIUM

The budget for 1975 indicates that Brussels is continuing to reject use of tight fiscal policies to fight rising prices. The weak coalition government of Leo Tindemans apparently feels that cuts in expenditures or large tax increases would cause it irreparable political damage. As before, monetary policy will be the main weapon against inflation.

Ordinary budget expenditures for 1975 will be up about 30 percent. Despite recent well-publicized tax increases, the budget deficit will be up sharply. Expected increases in supplemental appropriations will boost the deficit even higher.

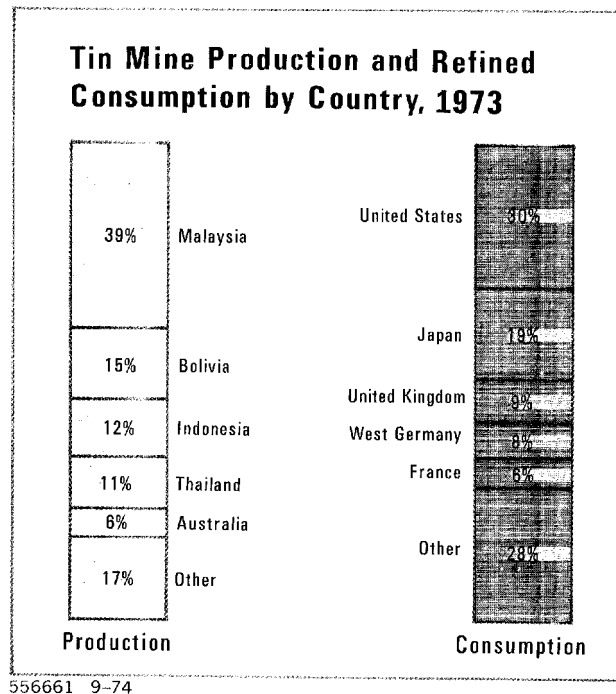
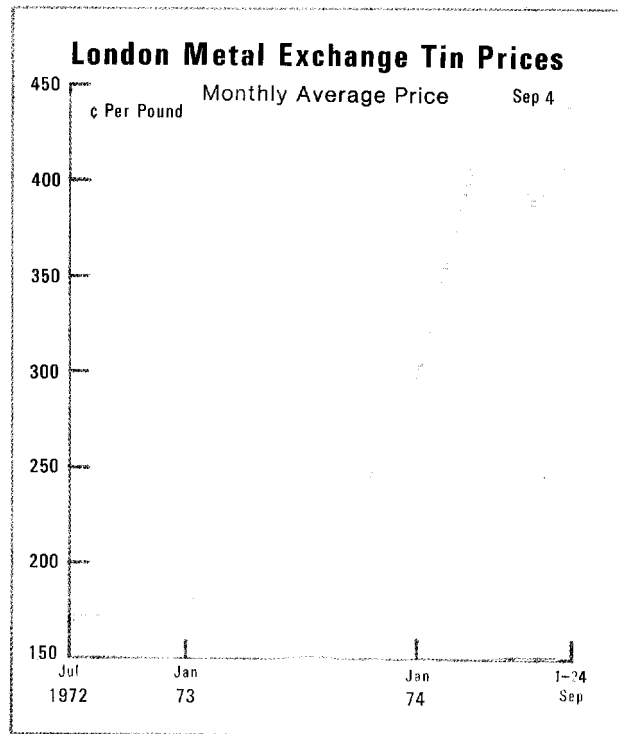
Inflation--estimated to be running at an annual rate of 15 percent--continues to be a serious problem. The rising cost of living has become a political issue, compelling the government to rebut charges of inaction. Economic officials have promised that fiscal policy and price restraints as well as tight monetary control will be applied rigorously to combat inflation.

Despite such statements, the government is even more afraid of the political consequences of slowing the growth rate--currently about 4 percent annually in real terms. Brussels will thus hold off fiscal tightening, hoping that credit restrictions will cut inflation to about half the current rate. High interest rates may also attract capital from abroad, sustaining an already favorable balance-of-payments position.

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INTERNATIONAL TIN

Tin prices on the London Metal Exchange remained strong at \$4.19 a pound on Tuesday--150 percent more than in late 1972, and still near the record high on September 4. No appreciable decline in prices is expected in the near term because mine production is stagnating, demand has continued to rise, and the buffer stock of the International Tin Council has been largely depleted. As usual, US market prices have been closely following the trend of London market prices.

In 1974, Free World consumption of refined tin probably will again exceed production, perhaps by as much as 20,000 tons (12 percent). Although the US had released 23,000 tons from strategic stockpiles by early September, supplies remain tight. Only 7,000 tons remain available for disposal under the previous congressional authorization. The buffer stocks of the International Tin Council currently contain only 142 tons and London Metal Exchange holdings are only 1,795 tons. Meanwhile, consumers continue to rebuild depleted inventories and speculators are active in anticipation of still higher prices.

Without sales from the remaining US stockpile of 205,000 tons, tin prices can be expected to rise further. If Congress approves releases from the 165,000 tons previously declared surplus, prices probably would not rise much higher and could drift downward because of slackening industrial demand in developed countries.

World mine production of tin has declined since 1972 in most of the major producing countries. In Malaysia, the source of nearly 40 percent of Free World tin, declining ore grades and, more recently, the high cost of oil used in dredging operations have caused marginal producers to close down. At the same time, sharply increased costs of new dredges have slowed the start of new operations. Production increases planned in Bolivia and Indonesia this year will do little more than make up for previous declines.

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Demand has remained strong for tin plate, which consumes nearly one half of tin output, and for solder in the electronics industry. Various substitutes for tin plate--including glass, tin-free steel, aluminum, plastics, and paper--also are currently in short supply, and prices accordingly are high. [REDACTED]

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ECUADOR-UK

Quito is nearing a final decision on purchasing two Yarrow "type 21" frigate-class ships from the UK. [REDACTED]

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Since early this year, when Washington lifted its 1972 ban on military sales to Ecuador, the Ecuadorean navy has been trying to purchase a variety of warships from the US, including four destroyers. The US agreed to supply one destroyer and several other ships, but was not able to satisfy the entire request because of other commitments. Negotiations are continuing, but no agreement has been reached. In the absence of further purchases from the US, Quito is likely to continue to look to Western Europe for naval craft. [REDACTED]

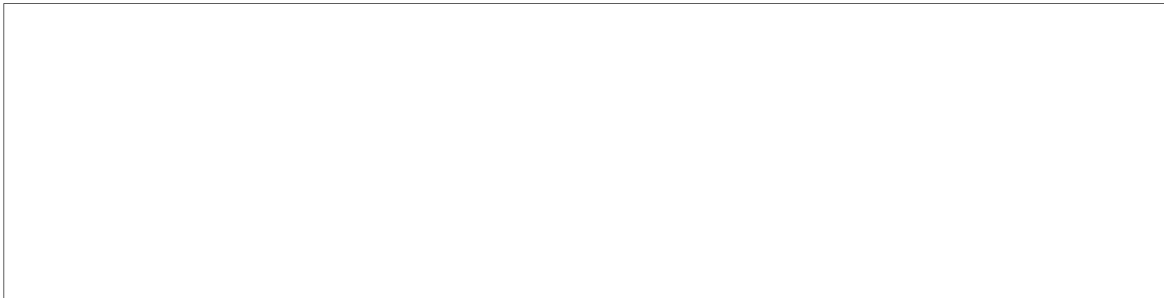
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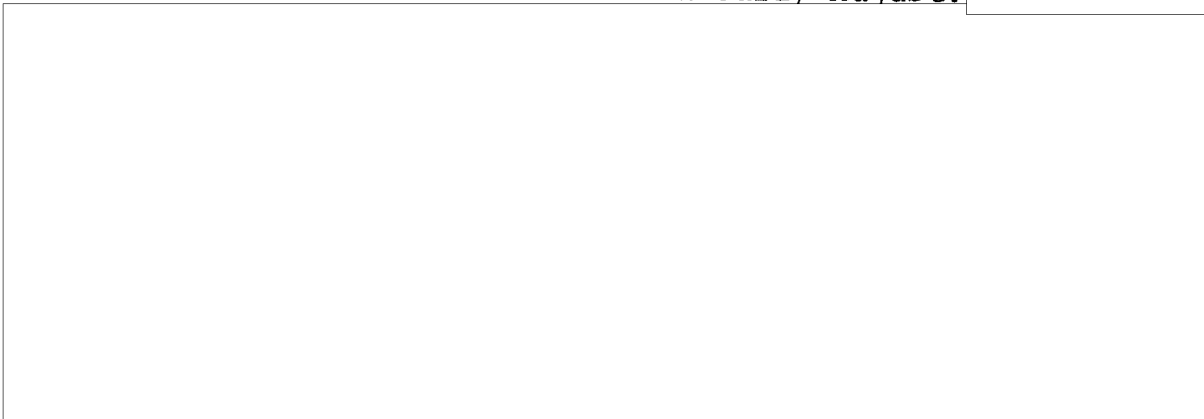
FOR THE RECORD



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Hungary-USSR: Party boss Kadar arrived in Moscow yesterday for a four-day visit at the head of an "official" party-state delegation. Accompanying Kadar are Premier Fock, Foreign Minister Puja, and Karoly Nemeth, the party secretary in charge of the economy. Press reports from Budapest stress that the coordination of annual and long-range economic plans are the primary items on the agenda. Kadar and Soviet party chief Brezhnev last met in the Crimea in early August.

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